

## On the Brink in Italy

By LIZ ALDERMAN

GUIDONIA, Italy — Emanuele Tedeschi wiped sawdust from his hands and gestured around the cavernous woodworking factory that has been in his family for two generations. The big machines, which used to run overtime carving custom furnishings for private homes, Roman palazzi and even the Vatican, sat idle on a shop floor nearly devoid of workers.

“A year and a half ago, the noise from production was so loud that you had to shout to be heard,” said Mr. Tedeschi, walking amid pallets of cherry and other fine woods stacked up and waiting for a purpose.

Since a government austerity plan designed to shield Italy from Europe’s debt crisis took hold last year, the economy has tumbled into one of worst recessions of any euro zone country, and Mr. Tedeschi’s orders have all but dried up. His company, Temeca, is still in business. For now.

But among Italy’s estimated six million companies, businesses of all sizes have been going belly up at the rate of 1,000 a day over the last year, especially among the small and midsize companies that represent the backbone of Italy’s 1.5 trillion euro, or \$2 trillion, economy.

The situation has become more urgent after inconclusive elections in February that left politics in Rome gridlocked. “With no one governing the country, there will be more paralysis, so things will get worse,” said Mr. Tedeschi, 49, casting a worried glance at his wife and their 23-year-old son. They help fill the trickle of orders, now that Mr. Tedeschi has had to lay off 6 of the 11 full-time employees he had in mid-2011.

A new caretaker government, which could be installed in weeks, is unlikely to be strong enough to pass growth-enhancing reforms, deepening problems for Italy, and for Europe, that could take years to reverse.

"This underscores the likelihood of Italy having a Japan-like decade with phenomenally slow growth," said Kenneth S. Rogoff, a professor at Harvard University and former chief economist of the International Monetary Fund. "And it raises painful questions about the long-run stability of growth in the euro zone over all."

And with the European Union standing as America's largest trading partner, problems that plague Europe's economy are felt across the Atlantic.

Italy's political quagmire might not roil global financial markets right away, Mr. Rogoff added. But it raises the specter of the European crisis "grinding on and on," he said, and would certainly make it harder for European leaders to cut deals "on the big-picture things that are needed to stabilize Europe."

The afflictions of Italy's economy, one of Europe's largest, are not necessarily new, of course: a lumbering bureaucracy, stifling labor regulations and a heavy reliance on companies with 50 or fewer employees that are struggling to compete in the global marketplace.

As the 17-nation euro currency union's economy was expanding an average of 1 percent for much of the last decade, Italy grew at only half that rate, according to the International Monetary Fund.

But Italy's longstanding problems have grown worse in the last year as tax increases and spending cuts were pressed by Mr. Monti, who took over as prime minister in November 2011 after the euro crisis forced out Silvio Berlusconi. Last year the economy shrank 2.4 percent.

One in two small companies cannot pay its employees on time, according to CGIA di Mestre, a research institute. With layoffs surging, unemployment rose to 11.7 percent in January. Youth unemployment has jumped to 38.7 percent.

The austerity program was intended to reduce the risk of a [debt crisis](#) and ensure the backing of the European Central Bank, but instead it left the country with no growth. And without growth, Italy will have a harder time paying down its 2 trillion euros (\$2.6 trillion) in debt, one of the largest debt burdens in the euro zone.

"For growth and unemployment to improve, we need to have a government that can remove uncertainty for businesses, consumers, investors and banks," said Tito Boeri,

the director of the Fondazione Rodolfo De Benedetti, a research firm based in Milan. “Political instability is probably one of the most damaging things for the economy.”

In some respects, Italy is not as hobbled as some other euro countries. The Italian government has managed to shrink the budget deficit. Industrial companies like Ferrari, Benetton and Ducati continue to help Italy maintain the euro zone’s second-largest manufacturing base after Germany.

But it is businesses like Mr. Tedeschi’s — ones with fewer than 50 workers, which constitute the vast majority of Italy’s economy and long provided much of its vitality — that are buckling as banks halt lending and taxes rise. Credit issued by Italian banks fell in 2012 to the lowest level in more than a decade. And the government owes an estimated 70 billion euros in unpaid bills for goods and services to Italian companies.

Mr. Tedeschi started feeling the pinch in late 2011 at his factory in Guidonia, an industrial town north of Rome in Lazio, a sprawling region that is in many ways a microcosm of Italy itself.

Here, amid low-lying mountains and rolling green hills, are many midsize factories specializing in products stamped “Made in Italy.” But hundreds of those businesses have been shut lately.

“In one and a half years, everything changed,” Mr. Tedeschi said. “People started feeling afraid, and they stopped spending money. All the promises Monti made to relaunch the economy and help us enhance productivity never materialized.”

Orders for Temeca’s custom-built bedrooms, kitchens, windows and doors slowed to a trickle. Even the Vatican, which commissioned a choir stand and furnishings for one of its palaces from Mr. Tedeschi’s company, stopped placing orders last year.

Recently, he took a step he had hoped never to have to make: laying off employees, including a man who had been with the company for more than 30 years.

“When I had to fire those people, I cried,” he said, sitting in his small office under a picture of Mother Teresa as his wife, Annarita Neroni, and his son, Lorenzo, looked on. Mr. Tedeschi said several members of a local trade group took their own lives last year when they could no longer maintain their business.

“This is a moment where if you stay alone in this situation,” he said, “you will wind up by shooting yourself.”

Mr. Tedeschi’s wife said the family stopped drawing salaries more than a year ago to make payroll for the remaining workers. Disillusioned with the economy’s rapid erosion under Mr. Monti, the family voted for the anti-establishment Five Star movement, led by the comedian turned activist Beppe Grillo, in the February elections, even though they knew it might lead to chaos.

“It’s a form of protest,” Lorenzo Tedeschi said, adding that he had been drawn by Mr. Grillo’s plan to cut billions of euros in corruption and wasteful spending. “We need to start from scratch in this country, and he gives us hope that there is a chance to make things equal.”

That may be tough, given that the discord Mr. Grillo created is likely to delay a recovery. Few people believe that official forecasts of a return to mild growth this year will materialize.

Lorenzo said he had no choice but to be optimistic. “I still have my life ahead of me,” he said. “I have to believe that things will get better.”

Mr. Tedeschi interrupted his son. “What has been happening is humiliating,” he said. “If I fail, and businesses like mine fail, then everything else fails.”

Ms. Tedeschi put her hand on her husband’s shoulder. “We are going through a financial war, which is burying us,” she said. “Will there be any survivors?”

*Gaia Pianigiani contributed reporting from Rome.*